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6 August 1974

MEMORANDUM FOR: Mr. Julius L. Katz
Deputy Assistant Secretary for
Economic and Business Affairs
Department of State

SUBJECT : Effects of the 1973 Arab Oil Embargo
With and Without the IEP as Formulated
Prior to the Most Recent Meeting of
the Energy Coordinating Group (ECG)

1. Attached is the requested information comparing how the United States, Canada, Western Europe, and Japan fared during the 1973 Arab oil embargo with how they would have fared under the Integrated Emergency Program (IEP).

2. It should be noted that the specification of the IEP formula (and, hence, the computed shares under the IEP) does not reflect any changes made during the July 28-29 meeting of the ECG in Brussels.

3. We will be pleased to provide any further analyses you may require.



Attachment:
As stated



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Introduction

1. In late 1973 the Organization of Arab Petroleum Exporting Countries (OAPEC) cut oil production and reduced exports to the major oil importing countries in an effort to press Arab political demands. The embargo lasted only a few months, but the United States, Canada, Western Europe, and Japan hope to deter similar action in the future by agreeing to act together during any new embargo. The proposed basis for this action is the Integrated Emergency Program (IEP). (See Table 1 for a summary description of the IEP.)

2. In this note we first describe the effects of the 1973 Arab embargo on oil imports by the United States, Canada, Western Europe, and Japan. We then compare these effects with what would have happened during the same embargo under the IEP.

The 1973 OAPEC Embargo

3. On 4 November 1973, the Arab oil producers agreed among themselves to cut production by 25%. They planned to continue reducing production by 5% each month until the oil squeeze prompted the major Western consumers to alter their positions on the Arab-Israeli conflict. Not all of the Arab producers honored the agreement, but OAPEC did cut production by about one-fourth in November 1973.

4. We do not know the exact impact of this production cut on oil imports by the United States, Canada, Western Europe, and Japan. Sharply rising oil prices, diversions, delivery lags behind production and exports, and changing Arab policies during the embargo period obscure much of the picture. We do know, however, that the Arabs intended to stop completely their oil exports to the United States and to allocate remaining production among their regular customers in proportion to normal purchases. On this basis, we estimate that at the height of the embargo the United States, Canada, Western Europe, and Japan as a group lost 3.8 million barrels per day (mb/d) or 14% of normal

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Table 1
Oil Sharing Under the Integrated Emergency Program (IEP)

Embargo Loss is Compensated by:

Embargo Loss

CASE 1: No member country loses more than 5% of its oil consumption.

CASE 2: At least one member loses more than 5% of its oil consumption, but the members jointly lose less than 7% of their consumption.

CASE 3: The group loses between 7% and 14% of its normal consumption.

CASE 4: The group loses more than 14% of its normal consumption.

Demand Restraints

The IEP requires no member to restrain its oil demand.

Each member absorbs its embargo loss--up to 5% of its normal consumption--through either demand restraints or stock withdrawals.

Each member restrains its oil demand by 7%.

Each member restrains its oil demand by 10%.

Oil Sharing

The IEP requires no oil sharing.

After each member absorbs its embargo loss up to 5% of its normal consumption, the remaining shortfall is shared on the basis of imports.

The shortfall remaining after demand restraints is shared on the basis of imports.

The shortfall remaining after demand restraints is shared on the basis of imports.

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Table 2
Estimated Oil Imports With and Without the IEP During
the 1973-74 Arab Oil Embargo
(in million barrels per day and percentage of normal imports)

	Total Imports Available ¹ / ₁		United States		Canada		Western Europe		Japan	
	(mb/d)	(%)	(mb/d)	(%)	(mb/d)	(%)	(mb/d)	(%)	(mb/d)	(%)
Without the IEP	23.2	86	4.38	74	0.98	99	12.81	87	4.99	92
With the IEP	23.2	86	4.45	75	0.82	84	13.06	89	4.83	89

1. Total imports available to the US, Canada, Western Europe, and Japan.

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total imports. (See Tables 2 and 3 for figures on the individual countries.)

Results With and Without the IEP

5. Each of the embargoed countries offset the reduction in its supplies either by reducing consumption or drawing down stockpiles. Under the IEP each country would have had to reduce consumption by 7% and share the remaining group supply shortfall of about 1 mb/d according to pre-embargo import shares. The United States would have absorbed 22% of this shortfall, Canada 4%, Western Europe 54%, and Japan 20% (see Table 2).

6. The United States individually lost about 25% of its imports or 8.5% of its normal consumption during the 1973 embargo. Without the IEP it had to make up the entire amount by reducing consumption or drawing down stocks. With the IEP, it would have had to reduce consumption by 7% and absorb 22% of the remaining 1 mb/d group shortfall out of stocks or by further reducing consumption. This amounts to an 8.2% loss in normal consumption, compared with the 8.5% loss without the IEP. The United States, therefore, would have been better off under the IEP.

7. Canada lost less than 1% of its imports during the embargo. Without the IEP it had to make up only 0.2% of its normal consumption by reducing consumption or drawing down stocks, but with the IEP it would have had to cut consumption by 7% and absorb its share of the remaining group shortfall--9.3% of normal consumption in all. Canada was better off without the IEP.

8. Western Europe lost about 13% of its imports. Without the IEP it had to reduce consumption or draw down stocks by an amount equal to 12.5% of normal consumption. Under the IEP it would have reduced consumption by 7% and absorbed its share of the shortfall--10.6% of normal consumption in all. Western Europe would have been better off with the IEP.

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9. Finally, Japan lost 8% of its imports, which is also 8% of normal consumption. Without the IEP it had to make up the 8% by demand restraint and stock drawdowns. With the IEP it would have reduced consumption by 7% and absorbed its share of the remaining group shortfall--10.4% of normal consumption in all. Japan was better off without the IEP.

Conclusions

10. We conclude that the United States and Western Europe would have been better off under the IEP, but that Canada and Japan were better off without it. Had the embargo been directed more at Canada and Japan, however, the opposite would be true since the IEP helps most those countries which are targets of selective embargoes.

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Table 3
Estimated Oil Imports With and Without the IEP During
the 1973-74 Arab Oil Embargo
 (in million barrels per day and percentage of normal imports)

	Total Imports Available 1/		France		West Germany		United Kingdom		Italy		Other Western European Countries	
	(mb/d)	(%)	(mb/d)	(%)	(mb/d)	(%)	(mb/d)	(%)	(mb/d)	(%)	(mb/d)	(%)
Without the IEP	23.2	86	2.19	87	2.56	87	2.02	89	1.80	86	4.24	87
With the IEP	23.2	86	2.25	89	2.61	89	2.03	89	1.87	89	4.30	89

1. Total imports available to the US, Canada, Western Europe, and Japan.

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